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UNCLAS HARARE 002809

SIPDIS

SENSITIVE

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON EPET EFIN ETRD AMGT ZI
SUBJECT: Almost No Fuel

Ref: Harare 2544

¶1. (U) Summary: Short of foreign exchange and shunned by Libya, this country is virtually running on empty. Doggedly patient Zimbabweans wait days in mile-long fuel lines that meander over and around city blocks. The roads have lost 75 percent of normal traffic, as the Government cannot muster the daily US$ 1 million it needs to meet fuel demand at present pricing levels. We believe the world's worst performing peacetime economy is lurching toward meltdown. End Summary.

Negotiations with Libyans fall through

¶2. (SBU) Zimbabwe has entered a cycle of recurring fuel shortages each 2-3 weeks, with every successive crisis more punishing than the last. The Government has scant export earnings to draw upon, the consequence of an official exchange rate that overvalues the Zimdollar by 30-fold, land redistribution that has destroyed a robust farm sector, tax policies that siphon nearly 100 percent of company earnings, and price controls that induce critical shortages. Negotiations with Libyan parastatal Tamoil, provider of most Zimbabwean fuel this year, broke down on Saturday. Reportedly, the Libyans now want hard currency rather than theoretical stakes in theoretical assets. A U.S. company rep told us the GOZ is trying to avoid purchasing fuel again from Kuwait-based IPG, which specializes in high-risk customers and has been charging the GOZ 20-40 percent over the international price. More conventional suppliers are cheaper but demand full prepayment from the credit-poor GOZ.

What Now?

¶3. (U) President Mugabe has few options. He can:

a) implore Libya not to let a fellow-African nation that has challenged the West go under.

b) sell or trade remaining national assets for hard currency.

c) print a fresh supply of Zimdollars to exchange for hard currency on parallel markets, causing the Zimdollar to resume its free-fall.

d) stop subsidizing fuel by over 90 percent.

e) unshackle the export sector by devaluing the official exchange rate, reversing land redistribution or reducing taxes.

(a-c) are quick fixes that win Mugabe no more than a few weeks breathing room; (d) will prove unpopular and trigger hyperinflation; (e) may be ideologically unpalatable.

The Threat to U.S. Interests

¶4. (SBU) At the weekend's party conference, Mugabe said he might nationalize foreign oil companies, a contingency we have warned of (ref) but one that, at the end of the day, does not address the forex/fuel problem. U.S. companies believe the GOZ will channel an increasing share of the subsidized fuel to indigenous operators, eventually pressuring multinationals into asset fire sales. At present, indigenous operators have 7 percent of distribution capacity but are receiving 30 percent of incoming fuel.

Comment

¶5. (U) Even Zimbabwe's still-vibrant informal economy cannot run without fuel. Unless the GOZ modifies its scorched-earth policies, the economy will continue to retract by over 1 percent per month, its foreign exchange

shortfall growing more pronounced at every turn.

Sullivan